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SUBJECT: ANGOLAS NEW ECONOMIC DIPLOMACY

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SUMMARY

[1](#)1. (SBU) Since the end of Angolas 27-year civil war in 2002, the GRAs strategy for international economic relations has evolved significantly, particularly with respect to multilateral institutions like the International Monetary Fund (IMF) and the Paris Club. While the GRA formerly viewed the IMF as the gatekeeper to international financial resources as well as a donors conference to fund the nations reconstruction, the government has successfully secured numerous bilateral credit lines on its own. An oil windfall has allowed the the GRA to pursue a monetary policy initially opposed by the IMF and settle debts with some creditors outside the context of the Paris Club. Rather than seeking debt treatment from the Paris Club and grants from a donors conference, the GRA is focused on attracting private investment and financing through its own means by paying off debts and stabilizing the economy. End summary.

FOCUS SHIFTS TO CREDIT LINES AND PRIVATE INVESTORS

[1](#)2. (U) In recent conversations with Emboffs and through widely disseminated public statements, the GRA has begun articulating a new economic policy. Following the end of the civil war, a major diplomatic and economic objective for the GRA had been to secure a Staff-Monitored Program (SMP) with the IMF, which would then have paved the way for a debt rescheduling with the Paris Club and an international donors conference to raise funds for Angolas reconstruction.

[1](#)3. (SBU) As repeated attempts to reach agreement nt with the IMF faltered, the GRA determined that it could not wait for an IMF program to begin normalizing financial relations with Paris Club members. The GRA has since paid arrears to both the United States and Germany and negotiated a USD 51 million credit line with Hermes, the German export finance bank. Governments around the world, eager to help their companies enter the increasingly

lucrative Angolan market, have been using their export finance banks to guarantee lines of credit for projects in Angola. The GRA has secured numerous bilateral credit lines for its reconstruction projects; of the governments USD 7.1 billion public investment program for 2006, about USD 5 billion will be funded through credit lines.

14. (U) Now focused on gaining access to the bilateral export credit agencies of Paris Club member countries, the GRA appears to be less concerned with acquiring Paris Club debt restructuring than it is with normalizing financial relations with the Clubs members (Ref A). The GRA has also backed away from calls for a donors conference in favor of investors conferences, conceding that the appropriate time to hold a donors conference has passed. Angolan authorities are discussing possible investors conferences with the governments of Portugal and Britain and with a Canadian business association.

DOES ANGOLA NEED THE IMF?

15. (U) These developments have diminished the urgency of establishing an SMP with the IMF, previously seen as a prerequisite to a successful donors conference and Paris Club negotiations. According to a March 7 Voice of America (VOA) report, an Angolan official noted, If a program with the IMF will not resolve the issue of national reconstruction (i.e., assure financial support), it

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does not make any sense to pursue it. Angolan authorities say that they can benefit from the IMF's technical advice and assistance on economic policy without a formal accord.

accord.

16. (U) However, in an interview published in the March 9 edition of the state newspaper, Angolas Central Bank Governor Amadeu Mauricio asserted that the GRA is continuing to seek a program with the IMF. Cooperation between the IMF and GRA continues (Ref A). On March 14, an IMF team began a two-week visit to Angola to conduct Article IV consultations on the countrys economic and financial situation. The Ministry of Finances Director of Studies and International Economic Cooperation, Manuel da Costa, informed us that the government has also invited the IMF to evaluate Angolas financial system by conducting a Report on The Observance of Standard Codes (ROSC) between May and June of this year.

DEFENDING THE HARD KWANZA

17. (U) A former area of contention between the GRA and IMF centered on the issue of Angolas hard kwanza policy (Ref B). The hard kwanza policy involved using the governments foreign exchange earnings to purchase kwanzas, the Angolan national currency, and taking them out of circulation to reduce liquidity and hold down inflation. The IMF and some other economists argued that this policy led to a real appreciation of the kwanza, disadvantaging local producers by making imports cheaper relative to locally made goods while depleting Angolas foreign exchange reserves.

18. (U) GRA authorities note, however, that the oil

windfall has actually increased Angolas reserves and that their monetary policy has successfully held end-of-period inflation down to 18 percent in 2005 (as opposed to 31 percent in 2004), thereby enabling a favorable investment climate. In the Central Bank Governors interview, Mr. Mauricio conceded that the kwanza has appreciated, but argued that internal production in Angola is so low that it would not be significantly affected by competition with cheap imports. He contended that the kwanzas appreciation actually benefits most Angolan entrepreneurs, who are still in the initial phase of of importing prime materials and equipment. Finally, he said, I realize that this [policy] is valid for a limited window, for a given period of time, suggesting that the GRA will eventually allow the kwanza to depreciate in real terms.

COMMENT: OIL BOON UNDERPINNED POLICY CHANGE

19. (SBU) Since the 2002 conclusion of the civil war, Angolas economic policymakers have shifted their focus from multilateral to bilateral partners and have increasingly sought private investment over official assistance to finance the nations reconstruction. The GRA has endeavored to settle debts bilaterally outside the Paris Club and has discarded the idea of an international donors conference in favor of bilateral investors conferences and trade missions. With the IMF no longer seen as the gateway to greater financial resources, the GRA continues to accept advice and technical assistance from the IMF but does not view an SMP as a necessity. Finance Minister Jose Pedro de Moraes has told us and repeated publicly that Angola does not need an IMF loan, but the government wants to improve its financial profile to attract more funding from private and bilateral sources.

110. (SBU) Comment continued: GRA authorities are taking advantage of high oil prices and increasing oil production to reposition Angolas economic

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diplomacy. The largest of Angolas bilateral credit lines USD 2 billion with China and USD 580 million with Brazil are backed by oil. With oil export earnings roughly doubling between 2004 and 2006, Angolas ability to settle debts, negotiate credit lines, and defend its currency increased while its willingness to meet the international community and international lending organizations requirements for an IMF loan, significant Paris Club debt restructuring, and a generous donors conference diminished. Although Angola is now seeking to jumpstart its reconstruction relying on its own means rather than the concessions of creditors and rs and international donors, the government also recognizes the need for international lenders approval and a better business climate to attract foreign investment. End comment.

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